

LRC Committee on Municipal Power Agency Relief

October 25, 2011

Minutes

Representative Jeff Collins called the meeting to order at 9:38AM on Tuesday, October 25, 2011.

The following committee members were present: Representative Bill Brawley, Senator Andrew Brock, Representative Jeff Collins, Senator Wesley Meredith, Senator Buck Newton, and Representative Paul Stam.

Representative Collins began the meeting with some opening comments. He explained the purpose of the meeting was fact finding in order to become more informed on the issue. In order to do so the committee heard speakers on various topics including, an up-to-date history, how the debt came about and how it's been dealt with. This committee was requested by Representative Collins and Senator Newton to see what can be done to help alleviate the problem.

Representative Collins introduced Senator Newton, his co-chair. Senator Newton thanked the Pro Temp's office and the Speaker's office for allowing this committee to be formed. It's an important issue for the eastern and western parts of the state.

Representative Collins introduced Heather Fennell, an attorney with the General Assembly's Research Division, to give a brief history of the Joint Municipal Power Agency. A copy of her comments is attached to the minute package (see attachment #1). Next, she gave the charge of the committee.

Representative Collins opened the floor for questions for Heather Fennell. Representative Stam asked if the committee was charged for looking at the contracts in addition to the law. Heather Fennell answered, the topic would be covered in a future meeting.

Representative Collins introduced the next two presenters, Vance Holloman, Deputy Treasurer, State and Local Gov't Division of State Treasurer's Office and Tim Romocki, Local Debt Management, State and Local Gov't Division of State Treasurer's Office.

Vance Holloman gave a power point presentation on the overview of the debt for the Municipal Power Agencies. His presentation is attached to the minute packet (see attachment #2).

Representative Collins opened the floor for questions for Vance Holloman. Representative Collins asked what has happened with the debt for the past twenty-five years. Vance Holloman answered that there has been some refunding to lower the rates and in earlier years they didn't have as much net pay down. Senator Newton asked for an explanation of the years leading up to 2012. How does the debt service principal and interest from previous years, 2010, 2009, 2005, etc., compare to the current year? Vance Holloman answered that the debt payable has been going down favorably. The total debt service has been reducing and the principal parts of payments have been getting larger. Senator Newton followed-up and asked if the principal amount was getting paid more and more. Vance Holloman answered yes. Sen. Newton asked for Vance Holloman to explain advanced refunding and asked Vance Holloman to clarify that roughly a billion dollars of the debt is not callable and a little over a billion is callable. Vance Holloman confirmed Senator Newton's statement and explained that advanced refundable means the

call date has not come and ESCROW will pay it back when the date comes. Right now, \$1.2 billion of the debt is callable, but 2/3 of it would be non-tax exempt for owners of the bond. Senator Newton asked how much of the total debt is callable either now or up to 2019. Vance Holloman answered about half. Representative Stam asked what the interest rate for today's market for advanced funding is. Vance Holloman answered he did not know, but would get back to Representative Stam with that information. Representative Collins asked if most of the debt had been issued on a ten year callable basis. Vance Holloman answered yes that is the industry standard. Representative Collins followed up and asked with bonds being as expensive as they are and the yield curve being so slight right now; in your opinion does that make it a good or poor time to call bonds? Vance Holloman answered that they are constantly looking for refunding options. Typically they look for 3% and constantly monitor the debt for opportunities. Senator Brock asked Vance Holloman to compare eastern NC and western NC in regards to how they handle the debt in the past and currently in order to see what practices are best for the future. Vance Holloman said he would get that information for Senator Brock.

Representative Collins introduced consumers, Billy Lamm, Thomas Joyner, and Lee Stephenson to give us the economic impact of the Joint Municipal Power Agency Debt.

Billy Lamm gave his presentation. He is a private developer east of I-95. He had clients refuse to look at his buildings due to the outrageous power rates and bills. He explained how industries have left Wilson because they can't compete with these power rates. Part of high unemployment is partially due to the power rates. He believes major banks need to be involved. He thinks there is a way for North Carolina to compete in the global economy and in order to do so everyone must come to the table.

Representative Collins opened the floor up for questions. Senator Newton asked Billy Lamm to go into more detail about his development projects. Billy Lamm explained his business in greater detail and explained how he has lost business due to his power bills.

Thomas Joyner, President of Nash Produce gave his presentation. He runs a food packaging company, primarily sweet potatoes, which require a lot of refrigeration on the property. In 2010 his utility bill to the city of Rocky Mount was \$392,644. He started getting involved in order to see why the cost was so high. He explained how each Electricities meeting he went to he heard the same response, nothing can be done and it is what it is. This year through September he paid \$284,000 in his power bill. He has two services on same piece of property. His rate to Rocky Mount is 11.6% and to Progress is 6.6%. If he could choose a power company to use he would choose Progress and save \$100,070. He explained how it's cheaper to operate on a Saturday or Sunday on "overtime" than to be charged "peak" charges during the week. He wants to create jobs and opportunities in eastern North Carolina but the power rates are killing businesses. His suggestion was to sell more electricity.

Representative Collins opened the floor up for questions. Senator Brock asked staff to please give a comparison of Progress Energy versus Electricities and also the Eastern part of the state versus the Western part of the state. Senator Meredith asked that the chairs ask someone from Commerce to come and present in an upcoming meeting in order to explain why Electricities power rates were not included in the Commerce Development chart. The chairs agreed.

Rep. Collins introduced Lee Stephenson, President of Stephenson Millwork. Lee Stephenson explained his business. They are a small/medium employer in Wilson with ninety employees and mostly do woodwork. His utility rate is in the 18-21k a month range for a building that is about 90,000 square feet.

They heat the plant by burning woodchips. The facility has fairly minimal utility requirement and he still spends a ton of money on his utilities. He fears a short term fix.

Representative Collins opened the floor up for questions for Lee Stephenson. Senator Newton asked if Lee was the former president of the economic develop of Wilson. Lee Stephenson answered yes. Senator Newton asked him to speak on the county-wide level of industrial recruitment for site selection. Lee Stephenson said it was an uphill battle. They will have companies interested but will hold off because they know they can't compete. The county can't afford to throw resources at companies who once they hear the utility rate they will go elsewhere. The county simply does not pursue anybody in a high utility user industry. Senator Newton asked Lee Stephenson to give specific industries the county doesn't recruit or pursue. Lee Stephenson answered any kind of industry where it needs to forge, melt, use heavy equipment, anything industry where they need to cool or heat anything. Representative Stam asked Lee Stephenson to clarify that his utility bill includes more than just electrical rate but also things like sewer, trash pick-up, etc. Lee Stephenson clarified that it did.

Representative Collins opened the floor up for public comments and questions. Andre Knight, City Council member for eight years spoke on how the Rocky Mount City Council worked on this issue in the past and tried to bring awareness to the citizens in regards to the debt. He wants to help clarify, examine, and solve this issue. Ruben Blackwell, Rocky Mount City Council member for 10 years commented that he wants to bring everyone power in an affordable manner and help the entire state grow. He hopes the committee will keep all options on the table and all considerations will be made.

Senator Brock asked staff to please compile a report that deals with transfers and subsidies. Heather Fennell said she would get that to the committee.

Representative Stam commented that he wants a solution that will help Apex, the only Electricities in his district, and not hurt the other towns in his district such as Fuqua-Varina and Holly Springs which are not part of Electricities.

Senator Newton thanked everyone who came to speak to the committee.

Senator Brock commented that the committee needs to keep in mind that while trying to come up with a solution for this issue the competition is not Duke Energy or Progress Energy but instead it's China, Canada, and other countries around the global economy.

Representative Collins adjourned the meeting at 11:21AM.

Representative Jeff Collins, Co-Chair

Senator Buck Newton, Co-Chair

Marissa Farrell, Committee Clerk